

**Onestop Software Solutions (M) Sdn Bhd & Anor v
Masteritec Sdn Bhd & Ors** A

HIGH COURT (KUALA LUMPUR) — SUIT NO D5(IP)–22–1828 OF
2008 B
RAMLY ALI J
14 FEBRUARY 2009

*Civil Procedure — Discovery — Documents — Notice to produce documents —
Rules of the High Court 1980 O 24 r 10 — Whether request for documents
premature — Whether a delay tactic or fishing expedition — Whether discovery
ought to be allowed* C

*Contract — Breach — Confidentiality agreement — Trade secrets and business
information — Whether construed from materials in public domain — Whether
confidential* D

*Copyright — Computer programs — Infringement — Establishing infringement
— Whether computer software programs protected by copyright — Copyright Act
1987 — Whether similarities explained by independent evidence* E

*Copyright — Infringement — Computer software — Interlocutory injunction —
Whether plaintiff successfully established copyright infringement* F

The plaintiffs applied for an interlocutory injunction prohibiting the
defendants from infringing the second plaintiff's copyright in the QnE
Software. The plaintiffs' claim against the defendants were as follows: (i)
infringement of the second plaintiff's copyright in the QnE Software; (ii)
breach of duty of confidentiality to the plaintiffs; (iii) breach of the
employment agreement by the second defendant; and (iv) breach of fiduciary
duty by the third defendant. The plaintiffs' QnE Software was an accounting
software specially designed for use by a person with minimal accounting
background. In the QnE Software, the plaintiffs asserted the following
features which are protected under copyright: (i) the computer program
comprising the literal elements being the source codes; (ii) the computer
program comprising the non-literal elements being the structure, modularity,
architecture and design features of the QnE Software; and (iii) the user
interface of the program (what appears on the screen display when the G
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A program is run). The third defendant who worked as an auditor of the first plaintiff had access to the first plaintiff's financial records, invoices, sales records, client records and other proprietary information such as technical information, source codes, sequencing as well as business secrets, including trade channels especially the distribution and resellers network, customer database as well as price and cost lists for their products. The third defendant was a shareholder of the first defendant company and acted in concert with the second defendant to set up the first defendant. The defendants filed a notice to produce documents referred to in the affidavit and pleadings pursuant to O 24 r 10 of the Rules of the High Court 1980 and served it on the plaintiffs.

Held, allowing the plaintiffs' application for an interlocutory injunction with costs and dismissing the defendants' application for discovery:

- D (1) Computer program is protected as a literary work under the Copyright Act 1987 ('CA'). It comprises source codes which are literary works. A computer program also comprises non-literal elements which are protected under the law. In respect of the user interface and the design of screen display of a computer program, they are protected as 'artistic works' under the CA (see paras 5 & 7).
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- F (2) In comparing two computer programs, where a defendant has manifestly copied but denied any copying, the proper inference is that similarities not explained by independent evidence are due to copying and not to his programming style. The defendants had failed to explain the various similarities between the plaintiffs' QnE Software and the infringing Masteritec Software. As long as there was conflicting evidence on the issues of copyright infringement, the case raised a serious issue to be tried. The plaintiffs had a strong case for copyright infringement against the defendants (see paras 10, 11 & 15).
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- H (3) Something that has been constructed solely from materials in the public domain may possess the necessary quality of confidentiality but there must be some product of the human brain which suffices to confer a confidential nature upon the information. The plaintiff's proprietary information was confidential in nature (see para 16).
- I (4) There were serious issues to be tried as the plaintiffs had strong and legitimate claims against the defendants in respect of copyright infringement, breach of confidentiality and breach of employment contract and breach of fiduciary duty (see para 29).
- (5) With regard to the production of the plaintiffs' source codes in the QnE Software, at this juncture, such production was premature. The issue whether there had been actual copying of the source codes, and if so,

which part of the QnE Software, including the source codes, had been copied, was for determination at full trial. The request by the defendant was a delay tactic as well as a fishing expedition early in the proceedings. The plaintiffs through their affidavits had illustrated that there were serious issues to be tried, and as long as the burden of proof was satisfied, it was not necessary for an order of discovery to produce the source codes and the demo CD. *Syarikat Ying Mui Sdn Bhd v Yeh Ying Sdn Bhd* [2003] MLJU 371 referred; *Yekambaran slo Marimuthu v Malayawata Steel Berhad* [1993] MLJU 96 referred (see paras 39, 41 & 42).

[Bahasa Malaysia summary]

Plaintif-plaintif memohon satu injunksi interlokutori menghalang defendan-defendan daripada melanggar hak cipta plaintif kedua dalam QnE Software. Tuntutan plaintif-plaintif terhadap defendan-defendan adalah seperti berikut: (i) pelanggaran hak cipta plaintif kedua dalam QnE Software; (ii) pelanggaran kewajipan kerahsiaan kepada plaintif-plaintif; (iii) pelanggaran perjanjian pekerjaan oleh defendan kedua; dan (iv) pelanggaran kewajipan fidusiari oleh defendan ketiga. Plaintif-plaintif QnE Software merupakan sebuah perisian perakaunan yang direka khas untuk kegunaan seseorang yang mempunyai latar belakang perakaunan yang minimum. Dalam QnE Software, plaintif-plaintif menuntut ciri-ciri berikut yang dilindungi di bawah hak cipta: (i) program komputer yang mengandungi elemen literal sebagai kod sumber; (ii) program komputer yang mengandungi elemen bukan literal seperti struktur, kemodulatan, binaan dan ciri-ciri reka bentuk QnE Software; dan (iii) pengguna program antara muka (apa yang dipaparkan pada skrin paparan ketika program dijalankan). Defendan ketiga yang bekerja sebagai auditor kepada plaintif pertama mempunyai hak masuk kepada rekod kewangan plaintif pertama, invois, rekod jualan, rekod klien dan maklumat keempunyaan lain seperti maklumat teknikal, kod sumber, turutan, begitu juga dengan rahsia perniagaan, termasuk saluran dagangan terutamanya pembahagian dan rangkaian penjual semula, pangkalan data pelanggan, begitu juga dengan harga dan senarai kos produk-produk mereka. Defendan ketiga merupakan pemegang saham syarikat defendan pertama dan bertindak bersama dengan defendan kedua untuk memerangkap defendan pertama. Defendan-defendan memfailkan notis untuk mengemukakan dokumen-dokumen yang dirujuk dalam affidavit dan pliding-pliding menurut A 24 k 10 Kaedah-Kaedah Mahkamah Tinggi 1980 dan menyampaikannya kepada plaintif-plaintif.

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Diputuskan, membenarkan permohonan plaintif-plaintif untuk injunksi interlokutori dengan kos dan menolak permohonan defendan-defendan untuk penzahiran:

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(1) Program komputer dilindungi sebagai karya kesusasteraan di bawah Akta Hakcipta 1987 ('AH'). Ini termasuk kod sumber yang merupakan karya kesusasteraan. Program komputer juga mengandungi elemen bukan bersifat harfiah yang dilindungi bawah undang-undang. Bagi pengguna antara muka dan reka bentuk skrin paparan program komputer, mereka dilindungi sebagai 'artistic works' di bawah AH (lihat perenggan 5 & 7).

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(2) Dalam membezakan antara dua program komputer, yang mana defendan dengan jelas telah meniru tetapi tidak mengaku meniru, inferens sewajarnya ialah persamaan yang tidak dijelaskan oleh keterangan bebas adalah disebabkan peniruan dan bukan cara pengaturcaraannya. Defendan-defendan gagal untuk menerangkan berbagai-bagai persamaan antara plaintif-plaintif QnE Software dan Masteritec Software yang menyalahi. Jika terdapat bukti bercanggah mengenai isu pelanggaran hak cipta, kes ini menimbulkan isu serius untuk dibicarakan. Plaintif-plaintif mempunyai kes yang kukuh bagi pelanggaran hak cipta terhadap defendan-defendan (lihat perenggan 10, 11 & 15).

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(3) Sesuatu yang dibina hanya daripada bahan-bahan dalam domain awam mungkin mempunyai kualiti sulit yang penting tetapi mestilah terdapat produk hasil daripada pemikiran manusia yang memadai untuk menjadikan maklumat sedemikian mempunyai ciri-ciri sulit. Maklumat keempunyaan plaintif-plaintif bersifat sulit (lihat perenggan 16).

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(4) Terdapat isu serius untuk dibicarakan memandangkan plaintif-plaintif mempunyai tuntutan yang kukuh dan sah terhadap defendan-defendan dalam pelanggaran hak cipta, pelanggaran kerahsiaan dan kontrak pekerjaan dan kewajipan fidusiari (lihat perenggan 29).

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(5) Begitu juga dengan penghasilan kod sumber plaintif-plaintif dalam QnE Software, pada waktu ini, penghasilan tersebut adalah pramatang. Isu sama ada benar-benar terdapat peniruan kod sumber, dan jika demikian, bahagian yang mana dalam QnE Software, termasuk kod sumber, telah ditiru, adalah untuk ditentukan di perbicaraan penuh. Permintaan oleh defendan merupakan taktik berlengah-lengah juga sebagai memancing prosiding-prosiding supaya diawalkan dan disegerakan. Plaintif-plaintif melalui affidavit-afidavit mereka telah membayangkan terdapat isu serius untuk dibicarakan, dan jika beban

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pembuktian dipenuhi, maka tidak perlu untuk mendapatkan perintah penzahiran untuk mendapatkan kod sumber dan CD demo. *Syarikat Ying Mui Sdn Bhd v Yeh Ying Sdn Bhd* [2003] MLJU 371 dirujuk; *Yekambaran s/o Marimuthu v Malayawata Steel Berhad* [1993] MLJU 96 dirujuk (lihat perenggan 39, 41 & 42).]

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Notes

For a case on breach of confidentiality agreement, see 3(1) *Mallal's Digest* (4th Ed, 2006 Reissue) para 2573.

For cases on discovery of documents, see 2(1) *Mallal's Digest* (4th Ed, 2007 Reissue) paras 2465–2469.

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For cases on infringement of computer programs, see 3(1) *Mallal's Digest* (4th Ed, 2006 Reissue) paras 5589–5590.

For a case on infringement of copyright, see 3(1) *Mallal's Digest* (4th Ed, 2006 Reissue) para 5624.

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Cases referred to

American Cyanamid v Ethicon Ltd [1975] AC 396, HL (refd)

Coco v AN Clark (Engineers) Ltd [1969] RPC 41, HC (folld)

Creative Purpose Sdn Bhd & Anor v Integrated Trans Corp Sdn Bhd & Ors [1997] 2 MLJ 429, HC (refd)

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Federal Computer Services Sdn Bhd v Ang Jee Hai Eric [1991] 3 MLJ 341; [1991] 4 CLJ 511, CA (refd)

Ibcos Computers Ltd & Anor v Barclays Mercantile Highland Finance Ltd & Ors [1994] FSR 275, HC (refd)

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Keet Gerald Francis Noel John v Mohd Noor bin Abdullah & Ors [1995] 1 MLJ 193; [1995] 1 CLJ 293, CA (refd)

Missing Link Software & Anor v Magee & Ors [1989] 1 FSR 361 (refd)

Prince Jefri Bolkiah v KPMG (a firm) [1999] 1 All ER 517, HL (refd)

Regent Decorators (M) Sdn Bhd & Anor v Michael Chee & Ors [1984] 2 MLJ 78; [1984] 2 CLJ (Rep) 441, HC (refd)

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Saltman Engineering Co Ltd & Ors v Campbell Engineering Co Ltd [1963] 65 RPC 203, CA (folld)

Syarikat Ying Mui Sdn Bhd v Yeh Ying Sdn Bhd [2003] MLJU 371; [2003] 8 CLJ 741, HC (refd)

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Yekambaran s/o Marimuthu v Malayawata Steel Berhad [1993] MLJU 96; [1994] 2 CLJ 581, HC (refd)

Legislation referred to

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Copyright Act 1987 ss 3, 42, 42(1),
Rules of the High Court 1980 O 24 r 10

SL Su (Julia Low with her) (Tay & Partners) for the plaintiffs.
Colin Andrew Pereira (Goh Wong Pereira) for the defendants.

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Ramly Ali J:

B [1] Enclosure 3 is an application by the plaintiff for an interlocutory injunction prohibiting the defendants from infringing the second plaintiff's copyright in the QnE Software.

[2] The plaintiff's claim against the defendants are as follows:
C (a) infringement of the second plaintiff's copyright in the QnE Software;
(b) breach of duty of confidentiality to the plaintiffs;
(c) breach of the employment agreement by the second defendant;
(d) breach of fiduciary duty by the third defendant.

D [3] The principles governing the grant of an interlocutory injunction were laid down by Lord Diplock in the House of Lords in the case of *American Cyanamid v Ethicon Ltd* [1975] AC 396. To summarise those principles, the party seeking the injunction must establish the following:

E (a) there are serious issues to be tried;
(b) damages will not be an adequate compensation; and
(c) balance of convenience favours the grant of the injunction.

F The above principles have been adopted by the Court of Appeal in *Keet Gerald Francis Noel John v Mohd Noor bin Abdullah & Ors* [1995] 1 MLJ 193; [1995] 1 CLJ 293. The plaintiff must satisfy the court that its claims are not frivolous or vexatious.

G INFRINGEMENT OF THE SECOND PLAINTIFF'S COPYRIGHT IN
THE QnE SOFTWARE

H [4] The plaintiff's QnE Software is an accounting software specially designed for use by a person with minimal accounting background. The objective of the QnE Software is to bypass the in depth knowledge required to manage the financial affairs of a business and the day to day financial administration and reporting of a business. In the QnE Software, the plaintiff's assert the following features which are protected under copyright:

I (a) the computer program comprising the literal elements being the source codes;
(b) the computer program comprising the non-literal elements being the structure, modularity, architecture and design features of the QnE Software; and

- (c) the user interface of the program (what appears on the screen display when the program is run). A

[5] Computer program is protected as a literary work under the Copyright Act 1987. Under s 3 of the Copyright Act 1987, 'literary work' includes 'computer program'. The case of *Creative Purpose Sdn Bhd & Anor v Integrated Trans Corp Sdn Bhd & Ors* [1997] 2 MLJ 429 at p 437 affirms that a computer program is a literary work. It comprises source codes which are literary works. A computer program also comprises non-literal elements which are protected under the law. B C

[6] The English cases are instructive on the issue of copyright protection and infringement of computer programs as our laws are similar. In the English case of *Ibcos Computers Ltd & Anor v Barclays Mercantile Highland Finance Ltd & Ors* [1994] FSR 275, the High Court held that copyright protection extends to both the source codes of a computer program as well as the underlying structure of a computer program. In *Ibcos Computers*, Jacob J held at p 302 that: D

I thoroughly agree with what Ferris J (in the *John Richardson* case) went on to say: 'Consideration is not restricted to the text of the code ...'. That must be right: most literary copyright works involve both literal matters (the exact words of a novel or a computer program) and varying levels of abstraction (plot, more or less details of a novel, general structure of a computer program). E

I therefore think it right to have regard in this case not only to what Mr Turner (the plaintiffs' expert) called 'literal similarities' but also to what he called 'program structure' and 'design features'. F

[7] In respect of the user interface and the design of screen display of a computer program, they are protected as 'artistic works' under our Copyright Act 1987. Section 3 of the Act defines 'artistic work' as including 'a graphic work, photograph, irrespective of the artistic quality'. G

[8] In the present case the plaintiff has shown prima facie proof of ownership and subsistence of copyright. The plaintiffs' affirmed in para 13 of the plaintiffs' first affidavit facts which are required to be in compliance with s 42 of the Copyright Act 1987. These facts are namely that: H

- (a) copyright subsists in the literary and artistic works of the QnE Software; I
(b) copyright subsists in the QnE Software at all material times after the first publication of the QnE Software on or around 2001 (in the original version and all subsequent revisions thereof);
(c) the second plaintiff is the owner of the copyright; and

- A (d) copies of the QnE Software are annexed in the statutory declaration in exh 'SML-6' of the plaintiffs' first affidavit.

B [9] Section 42 of the Act provides that an affidavit made in accordance with the provisions of sub-s (1) of the section shall be admissible in any proceedings under the Act and shall be prima facie evidence of the facts contained therein. None of the facts affirmed by the plaintiffs were challenged or rebutted by the defendants in their affidavits. The subsistence and ownership of the plaintiffs' copyright in the QnE Software is therefore proved.

C COMPUTER SOFTWARE AND INJUNCTION—ISSUES TO BE DETERMINED FOR GRANT OF INJUNCTION

- D [10] In comparing two computer programs, where a defendant has manifestly copied but denied any copying, the proper inference is that similarities not explained by independent evidence are due to copying and not to his programming style (per Jacob J in the *Ibcos Computer's* case at pp 303 and 304).

E [11] Applying the above principle, the court finds that the defendants have failed to explain the various similarities between the plaintiffs' QnE Software and the infringing Masteritec Software. The few attempts made by the defendants to explain the similarities ie based on accounting conventions or as features common to such accounting software, have been rebutted by the plaintiffs in their affidavits. In fact, the plaintiffs have gone to great length to demonstrate to the court why these features that were copied by the defendants are unique to the plaintiffs and how several competing products in the market differ from the plaintiffs'.

G [12] The threshold is to satisfy that there is a serious issue which had to be fully canvassed and tried ie whether there is copyright infringement of the software. The court in *Federal Computer Services Sdn Bhd v Ang Jee Hai Eric* [1991] 3 MLJ 341; [1991] 4 CLJ 511:

H It was very clear to us that the controversial nature of the competing expert evidence was such that it was quite impossible in an interlocutory proceeding to form any confident finding of fact; indeed, in this case the tasks of the trial judge before whom evidence will be given orally by the experts will be a very difficult one in view of the technical nature of those evidence.

I [13] In both cases, *Federal Computer Services* and *Missing Link Software & Anor v Magee & Ors* [1989] 1 FSR 361 the outcome of the expert evidence was inconclusive to the decision of the judge whether to grant injunction.

The principle to be taken from these cases is that as long as there is conflicting evidence on the issues of copyright infringement, the case raises a serious issue to be tried.

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[14] For purposes of the interlocutory injunction in the present case, the plaintiffs adduced evidence through the founder and main developer of the QnE Software, Mr Sam Mun Long, and he has highlighted the features in the QnE Software which have been copied. These similarities coupled with the defendants' access to the plaintiffs' QnE Software and the short time in which their infringing Masteritec Software was commercially launched, would certainly raise serious issues to be tried.

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[15] There are objective similarities between the Masteritec Software and the QnE Software, which are not adequately explained by the defendants. There is a strong causal connection between the Masteritec Software and the QnE Software due to the second defendant's access to the source codes of the plaintiffs' whilst under his employment. Under such circumstances the similarities between the software can only arise due to the copying of the QnE Software by the defendants. The plaintiffs' therefore have a strong case for copyright infringement against the defendants.

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BREACH OF DUTY OF CONFIDENTIALITY TO THE PLAINTIFFS

[16] In *Coco v AN Clark (Engineers) Ltd* [1969] RPC 41 at p 47, Megarry J discussed at length the elements that constitute confidential information. Accordingly, something that has been constructed solely from materials in the public domain may possess the necessary quality of confidentiality but there must be some product of the human brain which suffices to confer a confidential nature upon the information.

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[17] In addition, Lord Greene, Master of Rolls opined in the case of *Saltman Engineering Co Ltd & Ors v Campbell Engineering Co Ltd* (1963) 65 RPC 203 at p 215 that 'It is perfectly possible to have a confidential document, be it a formula, a plan, a sketch, or something of that kind'.

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[18] The plaintiff's proprietary information includes technical information, source codes, sequencing as well as business secrets, including trade channels especially the distribution and resellers network, customer database as well as price and cost lists for their products which form part of the plaintiffs' trade secret. Applying the dicta of *Coco v Clark* and *Saltman Engineering* above, it is clear that the plaintiffs' proprietary information is confidential in nature.

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[19] The information must have been communicated in circumstances

A importing an obligation of confidence, VC George J in *Regent Decorators (M) Sdn Bhd & Anor v Michael Chee & Ors* [1984] 2 MLJ 78; [1984] 2 CLJ (Rep) 441 applied the case of *Saltman Engineering* in deciding at p 82 (MLJ); p 446 (CLJ):

B As to the contention that such information that the defendants (who were ex-employees) had was in fact gathered by them from material which was available to anybody, if such gathering of the information took place while the defendants were in the employ of the plaintiffs and in the course of such employment then it could very well be that the use of what was thus gathered without the consent of the plaintiffs, would be an infringement of their rights.

C [20] In the present case, the second defendant was an ex-employee of the plaintiff while the third defendant was an ex-auditor. It is a well known principle that auditors, like any professionals in discharging their duties, owe a fiduciary duty to the company not to misuse confidential information which came to their knowledge in the course of their work. This principle is stated in the text book *Professional Liability in Singapore and Malaysia, Accountants and Auditors* by Kala Anandarajah at p 83:

E The auditor should not put himself in a position of conflict. For example, where he makes secret profits or acquires interests and benefits by improperly using confidential information about the company's business.

F Further, at p 85, the learned author states that the general rule is that an auditor owes a duty of confidentiality at common law. This duty arguably arises as a consequence of the nature of the fiduciary relationship that exists between the auditor and his client.

G [21] The plaintiffs have taken great length to protect their proprietary information, including having express clauses and undertaking of non-disclosure regarding confidentiality in their agreements with employees. The second defendant ought to know, after signing an agreement expressly enunciating non-disclosure of proprietary information that the information communicated to him in the course of his employment and work is confidential in nature. The second defendant was fully aware of his obligations after signing the employment agreement and undertaking of non-disclosure.

H [22] The third defendant as auditor of the first plaintiff should not have used the confidential information for the benefit of the first defendant and to the detriment of the plaintiffs.

I [23] The second defendant has used/disclosed the plaintiffs' proprietary information, whilst still under the employment of the first plaintiff and

continues to do so after the termination of their employment with the first plaintiff, despite signing an agreement with express undertakings as to confidentiality. The third defendant has also used/disclosed the plaintiff's proprietary information which he had obtained as auditor of the first plaintiff.

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[24] The second and third defendants have via the first defendant sold the Masteritec Software through identical trade channels, using identical means as the plaintiffs.

[25] The defendants did not challenge the plaintiffs' right to protect their proprietary information. The defendants have merely given a bare denial. The defendants' failure to rebut the plaintiffs' assertions of a right in the plaintiffs' proprietary information is deemed to be an admission thereof. Likewise, the defendants have not satisfactorily rebutted the misappropriation and use of the plaintiffs' proprietary information. There are thus serious issues to be tried.

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[26] There is also an issue that the second defendant has been alleged to have breached the terms of the employment agreement, especially the express terms regarding non-disclosure of proprietary information which survives the termination of the agreement. There is an indication of a breach of the agreement as the second defendant developed and sold the infringing Masteritec Software almost immediately after leaving the employment of the first plaintiff. The production of the infringing Masteritec Software is a direct result of the alleged unlawful use of the plaintiffs' proprietary information in breach of his terms of employment, especially the confidentiality clauses which survives termination. These are issues to be tried.

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[27] The third defendant is an auditor to the plaintiff. In the leading case of *Prince Jefri Bolkiah v KPMG (a firm)* [1999] 1 All ER 517 the House of Lords held at p 518 that 'like a solicitor, an accountant providing litigation support services owed a continuing professional duty to a former client following the termination of the client relationship to preserve the confidentiality of information imparted during the subsistence of that relationship. That duty is unqualified and required the accountant to keep the information confidential, not merely to take all reasonable steps to do so, and also not to misuse it'.

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[28] The third defendant who worked as an auditor of the first plaintiff from 2002–2005 had access to the first plaintiff's financial records, invoices, sales records, client records and other proprietary information. The third defendant is a shareholder of the first defendant company and acted in concert with the second defendant to set up the first defendant. The fact that

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A the Masteritec Software is substantially similar to the QnE Software, that both software are sold through similar trade channels and distributors is a direct result of the third defendant's alleged breach of fiduciary duty.

B [29] There are serious issues to be tried as the plaintiffs have strong and legitimate claims against the defendants in respect of copyright infringement, breach of confidentiality and breach of employment contract and breach of fiduciary duty, as discussed above.

C DAMAGES — INADEQUATE REMEDY

[30] An injunction should be granted when damages are inadequate remedy the and plaintiffs are in a financial position to pay the defendants.

D [31] The plaintiffs submit that damages will be inadequate compensation from the defendants should they win at trial. The reason damages will be inadequate compensation for the plaintiff are as follows:

E (a) the plaintiffs will suffer a permanent diversion of business, unfair appropriation of their labour, skill and effort in developing, designing and producing the QnE Software and damage to reputation due to defendants' wrongful acts;

F (b) disclosure of proprietary information by the defendants will not adequately be compensated by damages alone. Loss of goodwill, market share and business is irreparable and cannot be restored at the end of a long trial;

G (c) once a customer acquires a particular business financial software, it is unlikely that they will switch to another competitor's software as there would have been substantial investment in both time and money. Thus, the loss of business and custom to the plaintiffs is one of a permanent and irreparable nature;

H (d) the plaintiffs are denied their right to control exploitation and use of their copyright in the QnE Software and are denied the attribution and recognition in their ownership of the copyright in the QnE Software; and

I (e) the first defendant is operating on a small scale business out of the home of the second defendant and are not in the financial position to make good any compensation to the plaintiff. The defendants have not demonstrated to court any ability to pay damages that may be ordered against them and the plaintiffs are very likely to end up obtaining a paper judgment at the end of the trial. As seen from the company report at exh SML-3, the first defendant is making a loss as at the year ending 2006.

[32] The reason damages will adequately compensate the defendants are as follows:

- (a) the second and third defendants are not prohibited from working in their field of choice. So long as the products of the defendants do not utilise the plaintiffs' proprietary information, do not breach their contractual agreement regarding confidentiality and do not infringe the plaintiff's copyright, the defendants are at liberty to develop, market and sell competing software. They must not do in an unfair manner, and unlawfully and unjustly using the plaintiffs' intellectual property as a springboard to develop theirs; and
- (b) the defendants have just begun business and there is relatively little loss of market share and business.

BALANCE OF CONVENIENCE

[33] The balance of convenience favours the grant of the interlocutory injunction on the following basis:

- (a) the plaintiffs, particularly the second plaintiff is a MSC status company, which have come up through years of investment in time, money and effort. As the QnE Software is a good product, it has enjoyed increasing recognition, and sales of the same have been encouraging and are on the rise. The plaintiffs took many years to develop the QnE Software and spent a lot of time and effort promoting the same but all these will be destroyed if the defendants were allowed to openly sell and market their infringing Masteritec Software;
- (b) the plaintiffs currently employ up to 24 employees and the QnE Software is the plaintiffs' main and only product. With the defendants' infringing Masteritec Software continue to be offered for sale and sold in the market at a lower price but offering the same if not similar interface and systems, there is a real possibility that the plaintiffs' business will be severely impacted. The plaintiffs may not be able to sustain the growth of their business and may also be forced to scale down. This will be very unfortunate particularly as the second plaintiff is an up and coming MSC company;
- (c) on the contrary, the first defendant is a business operating from the second defendant's residence and does not employ many employees, if at all;
- (d) the defendants have not adduced a single shred of evidence to show their ability to pay damages and compensate the plaintiffs in the event they win at trial;
- (e) the first defendant continues to sell the infringing Masteritec Software

- A** despite notice from the plaintiff's solicitors to the first defendant in flagrant infringement of the second plaintiff's copyright. There is no intention of the defendants to stop their infringing acts unless restrained by the court;
- B** (f) as production and/or sale of the infringing Masteritec Software is continuing, the plaintiffs continue to suffer irreparable damage due to the free-riding of the defendants on the plaintiffs' labour, skill and effort;
- C** (g) as a result of not having to expend the required time, labour and effort on the development of the infringing Masteritec Software, the first defendant is able to offer the infringing Masteritec Software at a cheaper price than the QnE Software, which creates unfair competition between the plaintiffs and the first defendant to the continued detriment of the plaintiffs' business. The plaintiffs are not able to match the price of the Masteritec Software thus de-motivating and affecting the productivity of the plaintiffs' employees and also resellers; and
- D**
- E** (h) previously, the plaintiffs were able to command a good price for their products and maintain a reasonably good profit margin due to the unique features present in and developed by plaintiffs in the QnE Software, which set apart the plaintiffs' software from the other legitimate competitors. However the infringing Masteritec Software has copied these very unique features of the QnE Software and the defendants having access and knowledge of the plaintiffs' pricing and distribution channel, have offered the Masteritec Software at a lower price, as such greatly affecting the plaintiffs' profit and business.
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UNDERTAKING AS TO DAMAGES

- G** [34] The plaintiffs have undertaken to pay damages in this application to the defendants. The plaintiffs have no difficulty in paying damages to the defendants in the event the injunction order is set aside or the defendants ultimately succeed at trial.

H THE DEFENDANTS' NOTICE TO PRODUCE

- [35] The defendants filed a notice to produce documents referred to in the affidavit and pleadings pursuant to O 24 r 10 of the RHC 1980 on 24 November 2008 and served it on the plaintiffs on 25 November 2008.
- I** The defendants requested for production of the following documents:
- (a) source codes, referred to in para 14.1.1 of the statement of claim; and
- (b) the demo CD referred to in 'exh SML-49' of the plaintiffs' second affidavit.

[36] The plaintiffs' replied on 28 November 2008 with an objection to produce the documents requested. The reasons for the objection to produce are as follows:

- (a) the QnE Software is the copyrighted work of the second plaintiff. The defendants should not have a copy of the confidential source codes of the QnE Software as the defendants are competitors of the plaintiffs. One of the subject matters of the injunction is the copying of the QnE Software by the defendants and to allow the defendants to inspect the plaintiffs' source codes at this stage is very prejudicial to the plaintiffs; and
- (b) the QnE Software source codes are the proprietary rights of the plaintiffs which contain proprietary information which is classified. The proprietary information is a result of the substantial efforts of the plaintiffs in money and time developed and accumulated through many years. The source codes are very valuable to the plaintiffs and the plaintiffs' business. The source codes are not accessible from public sources or information.

PRINCIPLES OF DISCOVERY

[37] The general principle for an order of discovery is enunciated in the case of *Yekambaran s/o Marimuthu v Malayawata Steel Berhad* [1993] MLJU 96; [1994] 2 CLJ 581 where Edgar Joseph Jr J said at pp 13–14 (MLJU); p 585 (CLJ):

The essential elements for an order of discovery are threefold: namely first there must be a 'document'. Secondly, the document must be 'relevant' and thirdly, the document must be or have been in the 'possession, custody or power' of the party against whom the order for discovery is sought ... As to 'relevance', our Rules of the High Court limit discovery to documents which are 'relevant to' or 'relate' to the factual issues in dispute.

[38] The court will adopt the same principle applied in the case of *Syarikat Ying Mui Sdn Bhd v Yeh Ying Sdn Bhd* [2003] MLJU 371; [2003] 8 CLJ 741, which is a case concerning a request for discovery at an interlocutory stage by the defendant decided by this court at pp 15–16 (MLJU); p 748 (CLJ):

As in all other civil suits, it is the plaintiff's burden to prove its case on the balance of probabilities, during the full trial of the suit. It is only during full trial that the plaintiff must call its witnesses and adduce all other relevant evidence in order to prove its case on the balance of probabilities.

A The court continued:

... the court is satisfied that the defendant's application (for discovery) is in reality an application for the plaintiff to show proof at an early stage of the proceedings and tantamounts to a fishing expedition and an abuse of process of the court especially in light of the following:

B

The 'proof' of which the defendants seek from the plaintiff can only be properly elicited during pretrial case management or discovery or during the course of full trial ...

C

[39] With regard to the production of the plaintiffs' source codes in the QnE Software, the court finds that at this juncture, such production is premature. The issue whether there has been actual copying of the source codes, and if so, which part of the QnE Software, including the source codes, has been copied, is for determination at full trial.

D

[40] The plaintiffs' application is for an interlocutory injunction. The plaintiffs have adduced sufficient evidence as exhibited in the plaintiffs' affidavits to show that the defendants' have copied substantially from the plaintiffs' QnE Software. There is no need for reference to source codes at this juncture. Furthermore, copying of source codes is only one aspect of infringement of the copyright in the plaintiffs' computer program. There are the non-literal elements of the QnE Software which have been copied, which evidence of copying can be seen from the various objective similarities already highlighted and affirmed in the plaintiffs' affidavits.

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[41] It is neither expedient nor necessary at this stage to delve into the disclosure of source codes, since source codes are not easily understood by laymen and would need an expert to analyse. Further delay will be caused to the plaintiffs' application if time is taken to analyse the source codes. As such, the request by the defendant is a delay tactic as well as a fishing expedition early in the proceedings.

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[42] The onus of proof for interlocutory injunction by the plaintiff is to establish that there are serious issues to be tried, as discussed above. The plaintiffs through their affidavits have illustrated that there are serious issues to be tried, and as long as the burden of proof is satisfied, it is not necessary for an order of discovery to produce the source codes and the demo CD.

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[43] The better way of approaching the issue of source code copying is to have an expert look at both the plaintiffs' source codes for the QnE Software and the defendants' infringing Masteritec Software during the discovery process and render a report on the same. However, this is a step taken to

prove or disprove a party's case at trial. At the interlocutory injunction stage, such a requirement is unnecessary and defeats the urgency of an injunction being disposed of expeditiously.

CONCLUSION

[44] Based on the above considerations, the court rules that the plaintiffs' application for an interlocutory injunction is allowed with costs; and the defendants' application for discovery is dismissed.

*Plaintiff's application for an interlocutory injunction allowed with costs.
Defendant's application for discovery dismissed.*

Reported by Kanesh Sundrum

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